



2008 **VERMONT**
HANDBOOK ON
Fed/State E-File
For the 2007 Tax Year

Vermont Department of Taxes
November 2007 (revised)

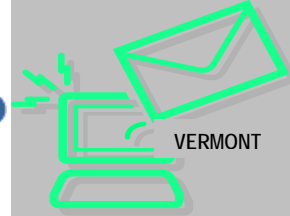
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WELCOME TO VERMONT FED/STATE E-FILING

For tax year 2007, Vermont Department of Taxes continues to offer the Fed/State E-File Program for electronic filing of Vermont personal income tax returns.

To participate, you must be accepted into the Federal E-File Program by the Internal Revenue Service **and** use approved software that supports Vermont.



2008 VERMONT HANDBOOK FOR FED/STATE E-FILE

This handbook provides preparers with necessary information to participate in the Fed/State E-File Program and a list of Vermont forms that can be filed electronically. Items unique to Vermont will be identified and instructions provided.

Please use this handbook in conjunction with IRS Publication 1345. The Vermont Department of Taxes conforms to all requirements, rules and regulations governing tax preparers set forth by the Internal Revenue Service.

VERMONT E-FILE CONTACTS

COMPUTER TECHNICAL ASSISTANCE

Tanya Perry, Fed/State E-Filing Coordinator

Vermont Department of Taxes

E-Mail: tanya.perry@state.vt.us

Phone: (802) 828-5707

Fax: (802) 828-3754

TAX QUESTIONS & OTHER QUESTIONS

Gloria Hobson, Taxpayer Advocate

Vermont Department of Taxes

Email: gloria.hobson@state.vt.us

Phone: (802) 828-2535

Fax: (802) 828-2701

RECEIPT OF FILING INFORMATION

Taxpayer Services Division

E-Mail: indincome@state.vt.us

Phone: 1-866-828-2865 (toll-free in VT)

(802) 828-2865 (local or out-of-state)

Fax: (802) 828-2720

Please allow up to 5 days for full processing

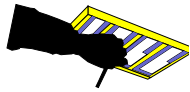
WEB ADDRESSES

Vermont Department of Taxes

<http://tax.vermont.gov/practitioner.shtml>

Internal Revenue Service

<http://www.irs.gov/efile/>



CHANGES IN VERMONT INCOME TAX FOR TAX YEAR 2007

***For complete legislative highlights go to <http://tax.vermont.gov>

TAX LAW CHANGES

Income Tax Refund may be designated as a payment towards the taxpayer's property taxes.

Income tax credit for **Vermont Higher Education Investment** increases from 5% of \$2,000 maximum contribution per beneficiary to **10% of \$2,500 maximum contribution per beneficiary** for contributions made in calendar year 2007.

Bond and note interest or income from investment in the Vermont Telecommunications Authority are exempt from Vermont income tax.

VT INCOME FORM CHANGES

Form IN-111

NO CHANGES

Form IN-112

Added Schedule D VT Tax Credits This schedule reports credits for Higher Education Investment, Angel Venture Capital Credit, Commercial Film Production, Charitable Housing, and Qualified Sales of a Mobile Home Park. (Previously on IN-119)

If only tax credits from Schedule D, total is carried to Form IN-111, Line 24.

If taxpayer also has tax credits on Form IN-119, the total of Schedule D is carried to IN-119.

Form IN-113

Schedule I, Line 18 incorporates Federal education AGI deductions for Educator Expenses, Student Loan Interest and Tuition Fees.

Schedule I, Line 19 only for deduction on Federal Form 1040, Line 24

Schedule I, Lines 20 only for deductions on Federal Form 1040, Lines 27 and 29

Schedule I – Added new Line 26 to accommodate deductions to arrive at AGI not specifically listed but included in total at Federal Form 1040 Line 36 or Federal Form 1040A Line 20

Remaining line numbers renumbered.

Schedule II – Added new Line 39 for exempt bond or note interest from VT Telecommunications Authority.

Remaining line numbers renumbered.

Form IN-119

With the exception of Affordable Housing and Venture Seed Capital Fund, these credits are carryforwards from previously authorized credits.

Renumbered lines.

If taxpayer also has tax credits on Form IN-112 Schedule D, that total is carried to IN-119.



CHANGES IN VERMONT PROPERTY TAX PROGRAMS

LAW CHANGES

The benefit phases out at \$97,000 household income.

Maximum 2008 property tax adjustment is \$8,000.

The payment made by the State of Vermont for care of a developmentally disabled person in the recipient's home excluded from the caregiver's household income effective 2007.

VT PROPERTY TAX PROGRAM FORM CHANGES

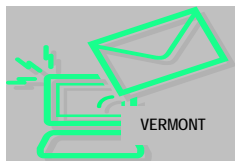
HS-122 Declaration of Vermont Homestead and Property Tax Adjustment Claim

Form divided into Sections A, B and C.

Line number prefix of A, B or C and lines renumbered.

Eligibility questions in Section B incorporated into line numbering

Redesign to make sure that users do not complete Lines B10 and B11 and B12. User may make an entry in Line B10 OR Lines B11 and 12, but not all three lines.



CHANGES VERMONT ELECTRONIC FILING FORMS

FORM 8879-VT

The contents of Form 8453 are now on Form 8879-VT. This is to coordinate with the Internal Revenue Service numbering for electronic filing forms. EROs or transmitters keep Form 8879-VT on file.

FORM 8453-VT

The Department will use this form when requesting additional documentation for an electronically filed return. EROs or transmitters return the documentation using this form as a cover sheet.

DUE DATES FOR RETURNS THAT CAN BE FILED ELECTRONICALLY

IN-111 Income returns

April 15, 2008

IN-151 Income Tax Extension Request

April 15, 2008 Vermont conforms to the IRS automatic six-month extension of time to file from Federal Form 4868.

Note: An extension of time to file does not extend the payment date for tax. Penalty and interest will accrue on any tax liability outstanding after April 15, 2008.

HS-122, Declaration of Vermont Homestead and Property Tax Adjustment Claim

April 15, 2008

No extension of time to file available.

September 2, 2007

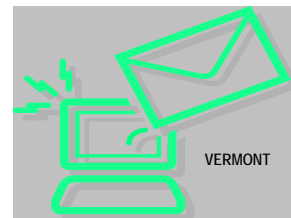
HS-122 filed by this date is late. However, it will declare the property as a homestead and property tax adjustment may be claimed. Late filing penalties apply.

After September 2

HS-122 filed after September 2, 2008 leaves the property as nonresidential and the homeowner is ineligible for a property tax adjustment. Late filing penalties apply.

NOTE:

- The declaration portion of HS-122 must be filed even if past the September 2, 2008 due date.
- Late filing penalty is 1% of the correct school property tax that is billed and collected by the towns. Appeal of the penalty is to the town.
- A \$15 reduction in property tax adjustment applies to HS-122 returns filed between April 15, 2008 and September 2, 2008.



BENEFITS OF ELECTRONIC FILING

Your clients benefit from electronic filing

- Refunds usually issued within 5 business days of the receipt acknowledgment date.
- Direct deposit of refunds into their checking or savings account available only for electronically filed returns.
- One signature on the Form 8879-VT covers the signature requirements for all returns electronically filed.
- Returns with tax due may be filed electronically at any time during the tax season but payment is not required until the due date.
- ACH debit payment available with electronic filing where clients can pay tax at the time of filing or schedule a payment for a future date. No convenience fee applies.

Note: Credit Card Payment is also available on-line system through VTPay. Go to <http://tax.vermont.gov> for more information and to access the system.

Your benefits from electronic filing

- Ability to file both Federal and Vermont returns at the same time.
- Ability to file just a Vermont return.
- Have IRS Electronic Filing Service Center and Vermont staff available to assist you.
- Use your existing tax preparation software as most offer electronic filing ability.
- Fewer errors - electronic filing software identifies and corrects many errors that slow down processing and delay refunds. Electronically filed returns have a 1.5% error rate instead of the 18% error rate for paper returns. (As reported by IRS)
- A filing receipt for proof of filing and to help track returns.
- Greater efficiency and productivity in filing returns.
- Reduced printing, copying and postage costs.
- Return copies can be stored on a computer disk to reduce your filing space needs.
- One signature on the Form 8879-VT covers the signature requirements for all VT returns electronically filed.

Acknowledgement provided for each return filed

Vermont uses the State acknowledgment system operated by the IRS Electronic Management System (EMS). This system may be accessed either directly or through your software product. Please refer to the software instructions for information concerning accessing and retrieving state acknowledgments. If you do not receive an acknowledgment from Vermont within 5 days of receiving the federal acknowledgment, contact the Vermont Fed/State coordinator.

Security of information

- Return information encrypted for secure transmission of confidential information
- Electronic filings improve your disaster recovery plan by allowing you to store return copies on computer disks for off-site storage.

ELECTRONIC FILING CATEGORIES:

1. *Software Developers* create tax preparation and transmission software that formats electronic returns according to Vermont's electronic return specifications. The software and transmission data must be tested and certified by Vermont Department of Taxes. To acquire Participant's Acceptance Testing System information and letter of participation, contact the Vermont Fed/State filing coordinator.
2. *Electronic Return Originators (ERO)* is the tax preparer. An ERO prepares tax returns for electronic submission using tax preparation software. The software must be approved by the Internal Revenue Service and the Vermont Department of Taxes. EROs may be the tax preparer who completes the return for their clients, or someone who produces electronic returns from already prepared returns. Check the Vermont Department of Taxes' web site for the date you may begin transmitting returns. **You do not need to send verification of IRS approval to begin filing with Vermont.**
3. *Transmitters* use approved software to transmit electronic returns directly to the Internal Revenue Service Center. You may be both an ERO and Transmitter, or the ERO may have an arrangement with a transmitter to use computer services.

REQUIREMENTS TO PARTICIPATE:

ERO and TRANSMITTER

IRS Requirements

Please see www.irs.gov/taxpros/providers for information on the Federal application process. No separate Vermont state application is required.

Application: Complete IRS Form 8633, Application to Participate in the Electronic Filing Program. Go to www.irs.gov/taxpros/providers to download Form 8633. The application period begins August 31 of each year and ends May 31 of the following year. To ensure participation in the IRS e-file season beginning January 1, applications should be submitted between August 1 and December 1.

Vermont Requirements:

No separate Vermont state application is required. You are not required to test with Vermont, but you must use Vermont approved software.

1. **Vermont Participants** Complete IRS Form 8633 and file with the IRS. No separate Vermont application is required. When you are accepted to participate in the IRS e-file program, you do not send a copy of the Form 8633 to Vermont.
2. **Out-of-State Participants** Complete IRS Form 8633 and file with the IRS. No separate Vermont application is required. When you are accepted to participate in the IRS e-file program, you do not send a copy of the Form 8633 to Vermont.

3. Participants Outside IRS Andover, MA Service Center Prior to filing Vermont forms, check with the IRS to be sure your filings can be accepted at Andover.

Responsibilities of ERO and Transmitter for Vermont Returns

- Use only software approved for use in the Federal/State Electronic Filing Program and Vermont-approved software. **It is the sole responsibility of the ERO/Transmitter to ensure they are using the most current version of their software.**

<p>**The Vermont Department of Taxes posts a list of approved software and any limitations associated with the software at http://tax.vermont.gov</p>

- Use the Vermont tax forms for allowable filings for tax year 2007.
- Use only whole dollars.
- Attach W-2, 1099, or other payment statement and other supporting documentation to Form 8879-VT, Vermont Individual Income Tax Declaration for Electronic Filing.
- Verify the correct name, address and social security number of the taxpayer and spouse (if applicable) was used for the filing and on Form 8879-VT.
- Ensure that Vermont Residents have filed a form HS-122 if they meet the requirements. Then check the appropriate box on the Form 8879-VT .
- Obtain the taxpayer's signature on Form 8879-VT ***before*** the return is transmitted. If filing a joint return, both signatures are required.
- Obtain the signature of the paid preparer, or attach a copy of the Vermont forms signed by the paid preparer to Form 8879-VT. Please be sure to mark the copy attachment as "copy."
- Do not transmit a return you suspect contains false information. Call (802)-828-2533 to report the situation.
- Ask the taxpayer if he or she wants to authorize you to discuss the return with the Department of Taxes and if yes, check the disclosure checkbox on the IN-111.
- Retain Vermont Form 8879-VT, with attachments, for three (3) years from the due date or the filing date, whichever is later. If the form is requested by the Vermont Department of Taxes, send the form and attachments within five (5) business days.
- Verify the bank account number if the taxpayer wishes to have the refund through direct deposit.
- Verify bank account number if paying with credit care on VTPay or with ACH debit. Also verify the payment schedule date for ACH debit transactions.

SOFTWARE DEVELOPERS

Who Must Test All software developers providing Vermont returns in their programs must apply and test with the Vermont Department of Taxes annually. Vermont accepted electronic filing for only approved software. Unapproved software filings are rejected.

Forms Supported Software can support all or only selected Vermont returns.

Application Notify the Vermont E-File Coordinator of intent to participate in the Fed/State Electronic Filing Program for Vermont returns. The notification of intent must list the contact person's name, address, telephone and fax numbers, e-mail address, product name, and identify any excluded forms or product limitations.

Software developers must also complete the IRS Participants' Acceptance Testing System documents. Upon acceptance, you issued an Electronic Transmitter Identification Number (ETIN). You will need the ETIN and a password to begin testing for compatibility of transmissions with the IRS system.

Testing Vermont tests for correct format of transmitted return data and the software validation rules conform to Vermont requirements. This assures the return information can be accepted by Vermont's processing system and helps reduce math errors. You must transmit returns from the Vermont Test Package for Tax Year 2007.

Contact the Vermont E-File Coordinator providing the anticipated start date for transmitting test returns using e-mail notification if possible.

Vermont provides a package containing test returns and the information needed to prepare each return. All test returns for forms supported must be submitted correctly to receive Vermont approval.

Transmit the state specific test returns from Vermont Test Package for Tax Year 2007 to IRS Andover Service Center. Vermont will retrieve the returns in the appropriate generic and unformatted record format. Vermont tests the match of all fields in the transmitted test returns against Vermont specifications. Software developers will be required to correct any problems until one entire error-free transmission is received.

Returns with an invalid or missing software developer identification code will be rejected.

Software Developers receive prompt feedback on all test returns transmitted. Vermont Department of Taxes will send an email stating approval upon successful testing.

Acknowledgments If a software provider needs to have an acknowledgement file for a Vermont filing re-sent, contact Tanya Perry

Vermont Department of Taxes

Tel: 802-828-5707 Fax: 802-828-3754

Email: tanya.perry@state.vt.us



ADVERTISING AND PROGRAM LOGO:

You can advertise you are authorized to transmit Federal and Vermont returns electronically by using this logo in advertisements, subject to IRS restrictions. ***Only this IRS-created electronic filing logo may be used.*** The IRS created this logo to give a consistent image to the program. Go to www.irs.gov/taxpros/providers under the IRS E-File Library for more information.

PARTICIPATION DENIAL OR SUSPENSION:

Denial to participate or suspension of participation in the Fed/State Electronic Filing Program may occur if standards are not met. Denial or suspension to file Federal returns automatically revokes your ability to electronically file Vermont returns.

For failure to meet Vermont standards, the Vermont Department of Taxes will send a letter explaining the problem.

ELECTRONIC FILING OF VERMONT RETURNS:

NOTE: If you receive a rejection notice for the Federal return, the state return does **not** get transmitted to Vermont.

Allowable Filings

- Vermont filers with refund, zero balance, or balance due returns
- Property tax assistance program returns
- Declaration of Vermont Homestead

Note: Software companies may not support filings requiring a Federal return recomputed for VT purposes as the Federal information filed will be different from the Federal information on the VT return.

Forms that can be filed

IN-111	Vermont Individual Income Tax Return
IN-112	Allowable VT Tax Credits
IN-113	Income Adjustment Schedules
IN-119	VT Tax Credits
HS-122	2007 Declaration of Vermont Homestead and Property Tax Adjustment Claim
HI-144	Household Income for HS-122

Forms that cannot be filed

PR-141	Renter Rebate Claim
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Date Return Marked As Received The acknowledgment date is considered the filing date for the Vermont return.

School District Code The Vermont school district code is required on all Vermont returns. See the chart of school district codes on our web site <http://tax.vermont.gov>

Transmission Process:

Filing Federal and State Returns Together Vermont returns may be transmitted at the same time as the Federal return to the Andover Internal Revenue Service Center. Andover receives and temporarily holds the Vermont data until the Vermont Department of Taxes retrieves the information.

Returns may be transmitted with modems using either asynchronous communications or bisynchronous communications. Refer to Federal Publication 1345.

Filing a Vermont Return Only The Fed/State E-File Program allows filing a Vermont return without the Federal return. Look for the “State Only” option in your software, but please note that not all software supports this option.

To file only a Vermont income tax return, a cover Federal return is prepared with the taxpayer name and social security number. The state section of the return is prefilled with “SO” to indicate this is a state only filing. If the taxpayer’s name and social security number is not on the IRS file, the state only return will be rejected.

You can also file just the property tax assistance program returns as state only returns. A cover Federal return as well as a cover Vermont income tax return is required, even if no income tax return is otherwise required.

Filing Acknowledgements:

IRS Acknowledgment If data meets specifications and the transmission is accepted, IRS acknowledges receipt of the Federal data and Vermont data. If the electronic returns do not meet the IRS specifications, both the Federal and Vermont returns are rejected. IRS generates the error code(s). Refer to Federal Publication 1345.

Vermont Acknowledgment Vermont also provides an acknowledgement for receipt of the Vermont return information. The Internal Revenue Service, through its Electronic Management System (EMS) produces the State Acknowledgment. Go to the IRS Acknowledgment address to retrieve your Vermont acknowledgment and use the Electronic Transmitter Identification Number (ETIN) assigned by IRS.

All rejections and questions or difficulties with the Vermont Acknowledgment go the Vermont Department of Taxes. Contact Tanya Perry

Vermont Department of Taxes

Tel: 802-828-5707 Fax: 802-828-3754

Email: tanya.perry@state.vt.us

Acknowledgment Information The acknowledgment contains the social security number, date transmitted, date received and codes indicating successful transmission or identify transmission problems.

Error Codes Two error codes apply to Vermont returns.

<i>ACK CODE</i>	<i>ERROR CODE</i>	<i>DESCRIPTION</i>
<i>A</i>		<i>Electronic return accepted by Vermont Department of Taxes</i>
<i>R</i>	0304	<i>Invalid or Uncertified Software Developer ID *</i>
<i>D</i>	0529	<i>Duplicate Document Control Number (CDN)</i>

Note: VT receives state return information only if the Federal return is accepted. If the Federal return information was rejected, VT does not receive the state information.

REFUNDS:

Processing Time: Generally 5 business days or less from date of Vermont acknowledgment.

Refunds as Payments:

Taxpayers may elect to apply all or a portion of the income tax portion of a refund toward 2008 estimated income tax payment.

Taxpayers may elect to apply all or a portion of the income tax portion of a refund toward their 2008 property taxes when the return is filed on or before September 2, 2008.

Refund Offset: If a taxpayer owes the tax to the Vermont Department of Taxes or IRS or has an outstanding debt with another state agency, all or a portion of the refund may be applied to the debt. The taxpayer receives separate notification if the refund is used to pay tax or debt.

Refund Delay: Delays may occur when additional information is required to verify the return entries. A refund offset will also delay receipt of any remaining refund.

Refund Status Tracer: A taxpayer or ERO may inquire about the status of a refund by calling the Department's toll free number (866) 828-2865 and selecting Option 1 for the taxpayer information line. During peak processing time, it may take up to two weeks before the return information is available on the taxpayer information line.


BALANCE DUE RETURNS:

Vermont returns with a balance due can still be filed electronically. The return may be filed in advance of the due date without payment. The tax paid by **April 15, 2008** has no interest or penalty charges.

Payment Due Date To be timely, payment must be received by **April 15, 2008**. Payment made after that date will be assessed interest and late payment penalty.

Making a Payment

You can pay by

- **ACH Debit** Available when using the Federal/State E-File system. You can use this method to make a payment at the time of filing or to schedule payment at a later date. No convenience fee applies. Tax paid after April 15, 2008 will have interest and late pay penalty charges.
- **CREDIT CARD** You can pay by credit card on line.
Go to <http://tax.vermont.gov> to 
- **CHECK or MONEY ORDER** The software automatically generates an IN-116, *Vermont Individual Income Tax Payment Voucher*, with specific taxpayer information. Please include the IN-116 with payment to assure proper crediting. Send the check and voucher to the Vermont Department of Taxes, P.O. Box 1779, Montpelier, VT 05601-1779.

FORM 8879-VT INSTRUCTIONS

Form 8879-VT, Vermont Individual Tax Declaration for Electronic Filing, authorizes the ERO to file on the taxpayer's behalf and serves as authentication of the return information.

Form 8879-VT must be:

- completed for every taxpayer's electronically filed submission.
- signed by the taxpayer before transmitting.
- completed with information that matches the electronic record.

Part I Taxpayer Information

Print the taxpayer's name, address and social security number. Verify that this information and the return information agree.

Part II Tax Return Information

Enter the information from specified lines of the allowable Vermont returns. Use whole dollars only. → Refund or balance due amounts may vary slightly due to rounding.

Part III Declaration of Vermont Homestead and Property Tax Adjustment Claim

Check the applicable box for the portion of the HS-122 transmitted. A declaration needs to be filed if taxpayer expects to be a VT resident on April 1, 2008 and owns and occupies the VT homestead on April 1, 2008.

Part IV Direct Deposit of Refund

Enter routing transit number (RTN) of the bank or financial institution. The RTN must contain nine numbers. If the RTN does not begin with 01 through 12 or 21 through 32 the direct deposit request will be rejected. Enter the depositor account number (DAN). The DAN can contain up to 17 characters (both numbers and letters). Check the appropriate box for account type.

Part V Declaration of Taxpayer

The taxpayer (and spouse if married filing joint or CU Partner filing joint), must read the declaration before signing. The taxpayer is verifying that the information in Part II matches the information on the Vermont return.

Please enter a telephone number or e-mail address where the taxpayer can be reached in case we need further information to process the return.

Part VI Declaration of Electronic Return Originator (ERO)

The ERO must read the declaration before signing and supply the business information requested in this signature block.

Note: If the paid preparer is not available to sign Form 8879-VT, a copy of the completed Vermont return(s) signed by the paid preparer must be attached. Mark these returns as “COPY” and enter the business information in the paid preparer section.

Part VII Declaration of Paid Preparer

The paid preparer must read the declaration before signing. The paid preparer then signs and dates the completed Form 8879-VT and supplies the business information in the paid preparer section.

Attachments to Form 8879-VT

- Copy of W-2, 1099 or other payment statement
- Recomputed Federal Forms, if any
- Other state or Canadian provincial return if credit for income tax paid to other state/province claimed
- Any other documentation needed to support return preparation

FREQUENTLY ASKED QUESTIONS

I am an out-of-state ERO/Transmitter, do I need to pre-register with Vermont before sending Fed/State Returns?

No. Vermont Department of Taxes does not require out-of-state EROs/Transmitters to register before transmission. However, each ERO/Transmitter is responsible for making sure they are using a Vermont certified software that has been tested and approved by the Department and are registered with the IRS to electronically file return.

What do I keep on file for Fed/State E-File returns?

Complete Form 8879-VT, Vermont Individual Income Tax Declaration for Electronic Filing, and attach copies of W-2 or other payment statements, Vermont forms or schedules, recomputed Federal forms, if any, and, if filing for Education Property Tax Payment, a copy of the property tax bill.

Do I send anything to the Vermont Department of Taxes for Fed/State E-File returns?

Do NOT send anything. Keep the returns and supporting documents on file should the Department request copies.

Does the Department ask for paper documents for e-filed returns?

Occasionally, the Department needs a source document to complete return examination. If needed, the Department will make a request for a specific document. Do NOT send in any documents if not requested. The more frequently requested documents are: Federal form 2441 for low income child and dependent care credit, W-2 or other income information for injured spouse, other state returns for income tax credit, and household income information for the property tax assistance programs.

How do you pay a tax due for electronically filed returns?

Tax due must be paid by April 15 to avoid interest and penalty charges.

You can pay the tax by

- ACH DEBIT when filing through the Federal/State E-File system.
- CREDIT CARD using our on-line system, VTPay. Go to <http://tax.vermont.gov> for further information and to access the system.
- CHECK or MONEY ORDER sent with Form IN-116, supplied to you by your software or available on the Department's web site. Mail the IN-116 and check or money order to Vermont Department of Taxes, P.O. Box 1779, Montpelier, VT 05601-1779.